

TO: DISTRIBUTION

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SUBJECT: Marlboro Summer Special Promotion EvaluationBackground

The Summer Special represented an opportunity to leverage Marlboro's seasonal summer strength through an extended, retailer co-funded promotion. The program was designed to drive Marlboro volume, while demonstrating to retailers the business building potential of promoting the number one cigarette brand. The program was designed to offer consumers 35¢ (PM contribution 25¢ and the retailer 10¢) off single pack deals, \$0.70 off 2 pack deals and \$1.05 off 3 pack deals of any packing of Marlboro from July 1st through August 15th. The single pack deal was limited to a two week execution, and offered in 17 states where either the price of Marlboro was above national averages or Black & White growth is presenting a significant threat to Marlboro. The balance of the country executed the multi-pack deal, with the deals extended to a four week period. In minimum price states, if retailers could not contribute at least \$0.10 per pack, comparable value must have been provided (e.g. advertising, additional PM display, P.O.S., etc.).

The retailer's 10¢ contribution to the program was critical to achieve both the desired price point below \$2.00/pack and the strategic leverage of a Marlboro price promotion. The Summer Special promotion was generally designed to appeal to pack outlets, but was placed in all types of stores from July through August. The penetration objective of the Marlboro Summer Special was placement in 45% of pack outlets with average volume in excess of 100 cartons per week. This equates to 24% penetration of all SPACE outlets. A mandatory requirement for retailer participation was the prominent placement of exterior and interior banners, window signs, and day glow starbursts. No temporary display were produced for this promotion. The offer was to be communicated via exterior and interior P.O.S. materials. Marlboro deals should have been merchandised on permanent counter displays in prime position. The total budget of the Summer Special was \$20.8 million.

Summary

There are currently six sources of promotional tracking information available that were reviewed to determine penetration and retailer compliance: SPACE, the Chain/Flex Payment System, the Retail Price Tracking Panel (1,050 stores, all trade classes), the Marlboro Ultra Lights test market Retail Audit Panels (3 markets, 50 stores each), the Convenience Store Promotion Tracking Panel (180 convenience stores), and the National Convenience Store Scanning Panel (125 stores). SPACE penetration data reflect field sales reporting on promotions placed, while the other sources reflect observed Summer Special P.O.S. or was inferred promotion placement based on a review of individual store pricing trends. All penetration data presented is cumulative. Results from these sources are:

	# Stores w/ Promotion	% Total Stores	% Carton Outlets	% Pack Outlets
SPACE Penetration (- 9/9)	12,700*	6	4	6
Chain/Flex payments (- 9/9)	18,900	9		
Retail Price Panels (- 8/31)	82	8	2	11
Convenience Panel (- 8/31)	55	30	n/a	30
Retail Audits (- 8/29)				
- Indianapolis	9	21	0	41
- Nashville	5	19	33	6
- Portland	0	0	0	0
NCS Scanning Panel (-8/16)	125	100	n/a	100

*Of the retail stores in SPACE that were reported to have executed the promotion, 38% were Retail Masters accounts (92% of the Summer Special was placed in these accounts after contract signing). Retail Masters currently penetrates about 13% of total SPACE stores, indicating that the Summer Special skewed toward Retail Masters accounts.

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- Based on a store-by-store match conducted between the outlets in the various research tracking panels and stores which Field Sales has recorded (SPACE/Flex & Chain Invoicing) or confirmed as participating in the Summer Special, 29% of the participating retailers contributed both the 10¢ co-funding and Philip Morris' funding of 25¢, 13% provided partial co-funding, 5% passed on only Philip Morris's funding of 25¢ and 40% did not contribute or pass on all of the Philip Morris 25¢ funding. The Summer Special promotion was not observed in the remaining 13% of stores recorded by Field Sales as having the deal.

RETAIL PRICE REDUCTION PARTICIPATION

	% <u>No Price Red.</u>	% Less Than <u>24¢</u>	% Between <u>24¢ to 25¢</u>	% Between <u>26¢ to 33¢</u>	% 35¢ <u>or+</u>
Retail Price Panels	29	6	18	12	35
Convenience Panel	41	18	15	2	24
NCS Scanning Panel	0	53	0	18	29
Combined Total	13	40	5	13	29

Of the stores without a deal observed, a masked exploratory survey of each store's manager was conducted. From this survey, 42% of retail managers claimed not to have executed/did not recall executing the Summer Special, 4% claimed to have offered the deal at a price less than 25¢ (PM's Funding level), 17% claimed to have offered 25¢, and 16% claimed to have offered at least 35¢ (full co-funding level). The remaining 21% refused to respond to the exploratory survey.

- Based on the total promotional funds distributed to date (\$10.7M) through the Flex and Chain invoicing systems and the estimated number of outlets represented (18,900), the maximum penetration obtainable within the program budget is approximately 35,100 outlets, or 16% of the total number of SPACE accounts.
- The average estimated amount of Marlboro volume paid per store was 4.4 weeks for Flex stores and 4.9 weeks for accounts paid through the chain invoice system. While this appears comparable to the expected average payment of approximately 4.2 weeks for the four week execution of the multi-pack offers, stores paid for the two week single pack deal were paid significantly more (5.5 weeks chains, 4.4 weeks flex) than expected (2.6 weeks).
- In NCS c-stores in which the Summer Special was executed as designed, Marlboro experienced an in-store volume increase of +22%. Initial estimates of outlet shifting coupled with observed penetration rates to date suggests that Marlboro's Summer Special may not provide measurable national net-to-brand volume.

Findings

- According to SPACE and the Retail Price Panel, the Summer Special, to date, has been less effective in gaining retailer penetration (6%) than historical Marlboro pack programs (25%). Penetration of the Summer Special's in "objective stores" (100+ cartons per week pack outlets) was 7%.
- SPACE and the retail price tracking audits indicate that the promotion was sold into pack outlets (80-90%). Most stores accepting the promotion were sold the single pack deal (60-70%). This was as expected as the 17 states identified to receive the single pack deal represents 62% of Marlboro's volume. However, 10% of the single pack deals were placed outside of the designated states.
- Region 2 achieved the highest concentration of placements, accounting for 35% of the promotional stores national (SPACE). Placements for Region 2 were driven primarily by Section 25 (Miami), which alone accounted for approximately 15% of all national placements. Only Section 13 (New York) matched this level of promotional stores, which when combined with Section 25 accounted for almost 30% of national placements.

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- The execution of the Summer Special in National Convenience Stores (NCS), summarized below is characteristic of the mixed execution of the promotion nationally. Preliminary results across these stores in Dallas, San Antonio, Houston and Atlanta suggests that Marlboro experienced an average in-store volume gain of +10% during the Summer Special. Initial estimates indicate that store shifting may represent as much as 80% of the volume gain in participating stores, resulting in low net-to-brand volume (+2%).

San Antonio (single pack)

- NCS stores in San Antonio offered full co-funding, adding 10¢ to Philip Morris' contribution to buy-down the price 34¢ from \$2.09 to \$1.75. Marlboro experienced an in-store volume increase of +22%. Net of initial estimates of store shifting, Marlboro experienced a +4% volume response.

Dallas (single pack)

- The 10¢ retail contribution was not provided in NCS stores in Dallas, which featured 26¢ off/pack. The promotion reduced the average price from \$2.25 to \$1.99, generating an in-store Marlboro volume gain of +8% during the promotion. This represents a 2% net-to-brand response.

Atlanta (three pack)

- In Atlanta, 70¢ was added for Marlboro (rather than the desired \$1.05) to an existing 26¢ discount on three pack purchases, resulting in 3 packs for \$3.99. Marlboro experienced a +6% volume increase. Initial estimates indicate approximately +1% volume net-to-brand. In comparison, during the Marlboro Multi-Pack test conducted in NCS (May 1991), Marlboro experienced a +12% in-store volume increase with 75¢ off three packs and a +33% in-store volume increase for 50¢ off two packs.

A high level of store personnel confusion appears to have occurred in NCS Atlanta stores between the Marlboro Summer Special and the chain's every day three pack cigarette discount. While NCS designated a separate cash register key for the Marlboro Summer Special, approximately one-third of the Marlboro three packs sold during the promotion were purchased at the normal three-pack price. In addition, while the multi-pack portion of the Marlboro Summer Special was designed to execute nationally for four weeks, scanned price reductions were observed in NCS Atlanta for two weeks.

Houston (single pack)

- NCS stores in Houston reduced the price by 20¢ rather than the Summer Special's prescribed 35¢. Marlboro's experienced a 4% volume increase in these stores, with no measurable net-to-brand volume obtained.
- Based on a store-by-store match conducted between the outlets in the various research tracking panels and stores which Field Sales has recorded (SPACE/Flex & Chain Invoicing) or confirmed as participating in the Summer Special, 29% of the participating retailers contributed both the 10¢ co-funding and Philip Morris' funding of 25¢, 13% provided partial co-funding, 5% passed on only Philip Morris's funding of 25¢ and 40% did not contribute or pass on all of the Philip Morris 25¢ funding. The Summer Special promotion was not observed in the remaining stores 13% of stores recorded by Field Sales as having the deal. Among this store match, 15% were located in minimum pricing states.

Next Steps

Further evaluation of the Marlboro Summer Special's national impact will be conducted during September/October as data becomes available.

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